



August 9, 2016

Honorable Mayor and Members of the City Council  
City of Fort Worth, Texas

I am pleased to present you with the Fiscal Year 2017 (FY2017) Recommended Budget. For a second consecutive year, the City's economic outlook is positive—from improvements in local job growth and sales tax collections to increases in residential and commercial values and new building permits. Along with this growth have come increased demands on City services and infrastructure, and ultimately the requests for and use of City dollars. We will continue to build upon previous years' efforts to make the City leaner and more effective to ensure the long-term protection of our quality of life.

I am presenting you with a balanced \$639 million General Fund budget that achieves the following:

- Lowers the property tax rate by two cents; the tax rate goes to 83.5 cents from 85.5 cents per \$100 of assessed taxable value
- Increases the cash funding dedicated to capital projects, including additional funds for street maintenance and repair and funds to improve neighborhood vitality and safety
- Staffs new facilities approved by voters in the 2014 bond program which includes a new fire station at Spinks Airport, Victory Forest Community Center, the expanded Silcox Animal Shelter, and new parks
- Emphasizes public safety with the second year implementation of Police's Sixth Patrol Division, additional school resource officers, funding for body cameras to equip all patrol officers, and the City funding 10 firefighters previously funded by a federal grant
- Provides funds for "pay for performance" for general employees
- Continue the practice of not using reserves to balance the General Fund budget

Reflecting the growing demands on our City's resources, the citywide FY2017 Recommended Budget—which includes the Debt Service Fund and most operating funds—totals just over \$1.9 billion, an increase of 16% over the FY2016 Adopted Budget. The citywide recommended budget also includes a total of 6,596 authorized positions overall, an increase of 142.6 AP from the FY2016 Adopted Budget.

As one of the fastest growing cities in the nation, as well as one of the most livable communities, we believe the future is bright for the City of Fort Worth. We expect that job growth will continue and people will continue to move to Fort Worth. The FY2017 Recommended Budget represents our plan to meet our responsibility to ensure appropriate infrastructure investment and maintenance and quality levels of services. I look forward to working with you throughout our budget process and also encourage citizen input and feedback as well.

Respectfully submitted,

David Cooke  
City Manager



## **EXECUTIVE SUMMARY**

The Fiscal Year 2017 (FY2017) Proposed Budget is the product of prioritizing revenue sources with expenditures through a comprehensive process of looking at the City's financial health for not only the upcoming year, but well into the future. In order to make integrated funding and other decisions to address top priority needs across the organization, the City will continue to move from department specific actions to a broader, organizationally focused decision-making process. These philosophies and processes shift our corporate focus towards identifying and building infrastructure investment.

The local Fort Worth economy continues to show steady signs of improvement; however, the growing demands on the City's limited financial resources continue to set the parameters within which the City must operate.

### **OVERVIEW**

The FY2017 Proposed Budget totals \$1.9 billion and consists of 20 different operating departments plus four appointed officials across various funds, including the General Fund, Special Revenue Funds, Debt Service Funds, Enterprise Funds and Internal Service Funds. Of the total budget, 35.5%, or \$639 million, reflects the cost of General Fund activities such as public safety, parks, neighborhood services, economic development, property management, transportation and public works, planning and development, public libraries and general management of the City. The remaining 64.5%, or \$1.1 billion, will fund the operations of the other funds, including Special Revenue Funds, Debt Service Funds, Enterprise Funds and Internal Service Funds.

The citywide budget also includes 6,596 authorized positions (AP), which is a net increase of 142.60 AP from the FY2016 Adopted Budget. The General Fund includes 4,516.30 AP which is an increase of 92.20 AP from the FY2016 Adopted Budget.

\*See Supplemental A – AP Additions/Deletions by Fund Type/Department and Significant Budget Changes within Departmental pages for more information.

### **BUDGET DEVELOPMENT PROCESS**

Staff began the FY2016 budget process in January of 2016 by presenting the City Executive staff with projection data for FY2015. February of 2016 brought the City Council retreat and an effort to align City Council goals with City Executive staff guiding principles. In early March, the Performance and Budget Office hosted a citywide Budget Kickoff to mark the formal beginning of the budget development process. The meeting brought together the executive team, department heads, Budget and Analysis division staff and departmental fiscal coordinators to discuss the overall strategy for developing the FY2017 budget. City staff set out to prepare the FY2017 Proposed Budget by relying on the following budget development strategies:

1. Fund current operations without a property tax rate increase
2. General Fund reserves will not be used for operations
3. Increase investment in infrastructure
4. Build a five-year Capital Improvement Plan and fund obligations from completed capital improvements
5. Fix negative funds and close legacy funds
6. Increase integration of external stakeholders in the budget process

As staff worked to close the budget gap, the inclusion or exclusion of various citywide expenditures, revenue opportunities, individual programs and existing service levels were all evaluated against these strategies.

In addition, the Management Plan, developed by City staff, provided key guidance in weighing critical decisions throughout the budget development process. The Management Plan, which is displayed below, was designed to provide staff with a framework to help Fort Worth in fulfilling its vision to *be the most livable and best managed city in the country*. These core objectives are a useful measure for allocating limited resources among competing needs.



Throughout the budget development process, staff updated City Executive staff on the performance of the FY2016 budget. To take advantage of the City's new Enterprise Resource Planning (ERP) software, the FY2016 City Forecast process was modified to provide more up to date data. This was accomplished by presenting data twice per year (March and July of FY2016).

While a revenue upturn has been a hallmark of the FY2016 budget thus far, in reality, the cost of providing even the same level of City services continues to increase. Beyond that, maintenance needs are growing. The City's population also continues to grow, putting a further strain on existing services and infrastructure. Even after combining these factors with fund balance reserve requirements and debt service payments, the City, for the first time since FY2010, presented a balanced General Fund budget without the use of excess reserves.

City staff continued to review all current processes to ensure that City services are the most efficient and effective possible. The Performance and Budget Office is also an available resource to City Departments to fine tune service delivery. Ultimately, the fruit of these efforts is a FY2017 Proposed Budget that is balanced. Due to improvements in revenue forecasts, tough reduction cuts and cost savings, there is no need to use excess fund balance in the General Fund.

Another welcome outcome of this budget process is that the City was able to lower the property tax rate to \$0.8350 per \$100 of assessed valuation from \$0.8550 per \$100 of assessed valuation. Staff continues to review and adhere to this and other policies set by the City Council when making budgetary and operational decisions.

## **SIGNIFICANT ISSUES**

Before highlighting specifics of the FY2017 budget, included below are several topics that received significant attention during the budget development process: budget development improvements, pay plan study/pay for performance, Enterprise Resource Planning, and capital projects planning.

**Budget Development Improvements.** Continuing updated budget processes are intended to provide more funding to support City infrastructure, focusing on maintenance of current assets before funding expansions; to facilitate a more proactive approach to budget management; to develop long-range debt and capital financing plans for all funds; to enhance budget accuracy; and to increase transparency and stakeholder participation in financial planning and budget development. Continued updated processes for the FY2017 financial planning and budgeting process to assist in “continuing the journey,” both as a City and as individual departments, include the following:

- Emphasizing corporate decision-making regarding needs and funding priorities based on performance measures;
- Eliminating reliance on use of fund balance;
- Developing a five-year, master plan-based capital funding plan to include operating and capital expenses, secured and potential funding, funding prioritization and annual spending schedules by project/budget item;
- Growing departments’ pay-as-you-go capital funding;
- Holding monthly budget development stakeholder meetings beginning in March 2016; and,
- Producing attainable revenue and expenditure budgets that come in neither over nor under, but rather on budget at fiscal year-end.

**Capital Planning.** The City continues to enhance the process to develop a Five Year Capital Improvement Plan which includes identification and prioritization of current and future funding requirements for capital projects. As part of that process, capital funds are included in the current year budget for pay-as-you-go funding to pay for capital assets and expenses. The City is allocating \$0.0650 of the property tax rate, from General Fund operating expense to General Fund capital items in FY2017, while decreasing the overall tax rate. This allocation is an increase of \$0.0156 from FY2016 and is 6.5 percent of the property tax dedicated to Maintenance and Operations. For the General Fund, this translates to a capital investment of \$33,286,079. The increased emphasis on capital planning will focus primarily on maintenance of existing capital.

**Pay Plan Study/Pay for Performance.** In October 2014, the City of Fort Worth initiated a pay plan study of over 3,700 general government employees (excluded sworn Fire and Police personnel). The purpose of the study was to assess and make changes to the pay plan structure based on both internal (hierarchy) and external (market) factors to allow the City to be competitive in the recruitment and retention of a highly effective workforce. Initial assessment and implementation of a new structure along with new job descriptions was completed by the end of FY 2015. In FY 2016, an appeals process was conducted and 157 employees appealed their classification with 50 being reclassified. Additionally, as a part of the implementation of the new pay structure, in January 2016 raises for general government employees were provided based upon tenure and salary in order to more appropriately place employees in their new ranges. Within the FY2017 Proposed Budget, City Executive Staff have budgeted 3% of general employee salaries for pay for performance. The goal of these funds are to retain quality staff and reward general employees providing exceptional service to the City.

**Enterprise Resource Planning Phase II (ERP).** On October 1, 2015 the City implemented a new business system to enable staff to adopt and put into action financial industry best practices. This implementation included the following functionality: Accounts Payable, Accounts Receivable (Deposit), Cash Management, Commitment Control, General Ledger, and integration with the PeopleSoft Payroll/Timekeeping and the BuySpeed Purchasing Systems. It replaced antiquated systems and consolidated stand-alone systems into one enterprise system. Upon implementation, the City has begun to standardize business processes through the adoption of best business practices, strengthen internal controls, establish a single source of financial record, provide real-time data and strengthen City financial systems. Future modules are being planned to continue to improve financial practices and they include: Accounts Receivable/Point of Sale System, Budget System, and an HCM upgrade.

## **MAJOR FUNDING AND ORGANIZATIONAL CHANGES**

### **FUNDING CHANGES**

Changes to the FY2017 budget reflect the challenges presented as the City strives to continue providing its citizens with high levels of services, while operating within constrained budget parameters. These changes include program improvements necessitated by contractual, statutory, and other obligations, along with program reductions to ensure City services operate in the most efficient and effective manner possible.

**Program Improvements.** Providing essential public programs and required levels of service sometimes necessitate program improvements, even in the most challenging of times. As part of the budget development process, departments submitted requests for program improvements, which were then vetted against the core objectives of the Management Plan. In addition, staff took into consideration any relevant contractual or statutory mandates. Based on this analysis, \$6.3 million in program improvements for the General Fund, and \$3.4 million in program improvements for other funds are included in the FY2017 Proposed Budget.

\*See Significant Budget Changes within Departmental pages for more information.

**Program Reductions.** To ensure that essential public services have the necessary resources to meet performance goals and citizen expectations, funding decisions among competing needs is inevitable. \$2.4 million of reductions are included in the FY2017 Proposed Budget. A total of \$661,820 in the General Fund, and \$1.7 million in other funds. These competing needs were evaluated in every attempt to maintain acceptable citizen service standards, and avoid eliminating critical programs, if objectives could continue to be met at a reduced cost.

**Non Departmental Funding.** Non-Departmental cost centers have traditionally been used to record General Fund expenditure items not exclusively within the programmatic responsibilities of a General Fund department. For FY2017 many of these allocations such as retiree health benefits, death benefits, economic incentives, debt service for the energy savings program, electric utility costs, storm water utility assessments, risk management costs for self-insurance premiums, claims and legal payments and county appraisal district fees, were transferred out to the participating department. Going forward, Non-Departmental centers will be used for budgeting purposes only. The remaining major Non-Departmental accounts include electric utility contingency, separation leave costs, election costs and the Tuition Reimbursement Program. No expenses will be charged to these appropriations. Any funding remaining is considered contingency funding and may be transferred to a departmental budget to cover expenses, as approved.

**Special Donation Fund.** The Special Donation Fund was created in FY2016 to capture and monitor monetary donations received by various departments within the City. Each year some departments receive donations from private entities. These revenues may be limited in use by the donor. In the past these funds were commingled with other types of revenue and the Special Donations Fund was set up to budget for these cash/monetary donations separately. The budget is based on the anticipated revenue from each department that receives donations and is included in the budget appropriation for the fiscal year. Revenues and expenditures are budgeted within the Special Donation Fund and once a donation is received, both the revenue and expense is transferred to the applicable center for the department receiving the donation within the Special Donation Fund. Any expenses associated with these donations must be paid from the Special Donation Fund and funds may not be expended until the donation has been received and appropriated.

**Chapter 380 Economic Development Agreements.** Chapter 380 agreements, made in accordance with Texas Local Government Code 380, may be used as a gap-financing tool and are proposed by the City Council to serve as local grants to reimburse private developers for a range of expenses that may otherwise render development projects financially unfeasible. Public support of these projects yields significant positive impact to the community and neighborhoods surrounding the project. During FY2016, funding was budgeted for 28 projects at \$15.2 million. For FY2017, one project was completed and two additional projects are expected to come online for a total of 33 projects and \$15.0 million to satisfy all the projected agreements included in the budget.

**Vehicles and Specialized Equipment.** To address deficiencies in the City's vehicle and heavy equipment fleet, the FY2017 Proposed Budget includes funding for replacements and acquisitions of \$3.0 million from the General Fund and \$232,000 from other funds. Additionally in FY2015, in order to improve long-range capital budgeting for vehicle and equipment purchases, the City created the Vehicle and Equipment Replacement Fund (VERF). The VERF was set up as a capital projects fund to be used in managing revenues and expenditures associated with acquisition of the City's rolling stock, which includes automobiles, motorcycles, specialized mobile equipment and other motor driven capital assets. The VERF provides a mechanism for departments to set aside funding in preparation for upcoming vehicle-related capital expenditures and enhance transparency and auditing efforts by providing a central account repository for the purchase of most vehicles and equipment acquired by the City. Participating funds in the VERF include the General, Environmental Protection, Red Light Enforcement and Culture and Tourism Funds. Funds budgeted for equipment and capital purchases in these funds will be transferred to the VERF to provide a systematic, citywide approach to procurement and disposition of fleet, as well as to ensure adequate funds are available to purchase vehicles and equipment.

## **ORGANIZATIONAL CHANGES**

The FY2017 Proposed Budget includes a few major changes to the City's organizational structure, including the following:

**Gas Well Revenues/Expenditures.** In an effort to better align City resources with operational tasks, one Management Analyst II position was transferred from the Property Management Department to the Financial Services Management Department. By transferring this position, the administrative tasks associated with Gas Well revenues and expenditures will be conducted in a more efficient and effective process.

**Capital Project Services Fund.** Two Senior Engineer positions were added to the Capital Project Services Fund – TPW to assist with the administration and operational facets of capital projects throughout the City.

**Police Department.** The implementation of the second year of the Sixth Patrol Division staffing plan is included in the FY2017 Proposed Budget. The plan includes the addition of 31 Officers targeted for a starting date of January 2017.

**Fire Department.** Fire Station #42 is scheduled to be opened at Spinks International Airport in January of 2017. 14 AP's will staff the station after successfully completing appropriate training.

**Creation of the Performance and Budget Office.** In June of 2016, City Executive Staff decided to combine the Performance Management Office (PMO) with the Budget and Research Division of the Financial Management Services Department to create the Performance and Budget Office (PBO). Six AP's from the PMO joined 18 AP's from the Budget and Research Division to finalize staffing for the PBO. This newly created office will perform numerous budgeting, analysis and efficiency related tasks and serve as an internal consulting source for City departments as well as the City Manager's Office.

**Planning and Development.** Five AP's (Inspectors and Examiners) are being added to the Planning and Development Department to assist with inspections and examinations for development and re-development throughout the City of Fort Worth. AP's will be offset by increased fees that have been vetted and agreed to by the development community. Additional AP's will allow for the Planning and Development Department to maintain and enhance service delivery.

## **GENERAL FUND REVENUES**

The economic outlook for Fort Worth is encouraging with property and sales tax revenue, along with fee income, continuing to grow.

### **Proposed General Fund Revenue Budget**

FY2016 <u>Adopted</u>	FY2017 <u>Proposed</u>	Percent <u>Change</u>	Dollar <u>Change</u>
\$610,902,639	\$639,004,871	4.6%	\$28,102,232

## **PROPERTY TAX**

The City receives a significant portion of its revenues from property taxes assessed on real and personal property. City staff works with appraisal districts from Tarrant, Denton, Wise, and Parker Counties to prepare property tax revenue projections. By State law, each appraisal district is responsible for the valuation of all property within its jurisdiction. The certified property tax rolls received from all four districts in July 2016 showed an increase in the City's property tax base. In comparison to the July 2015 certified property tax roll, the July 2016 certified property tax roll reflected a 9.9% growth in adjusted net taxable property value.



When updating the five-year financial forecast and preparing the budget for City Council consideration, staff analyzed many of the factors affecting property tax revenue, including anticipated population growth, historical change in values for residential and commercial properties, current and projected permitting data, the impact of foreclosures, as well as exemptions and protests. Staff also evaluated the allocation of the levy amount, and resulting availability of revenue for operations and maintenance (O&M), as compared to the amount available to repay the City's debt.

For FY2017, the City's combined property tax rate was lowered to \$0.8350 per \$100 of assessed valuation with a 98.5% collection rate. Based on the O&M levy rate of \$0.6615 per \$100 of assessed valuation, the General Fund portion of the property tax rate is expected to yield approximately \$338.7 million in revenue for FY2017. The debt service levy rate of \$0.1735 per \$100 of assessed valuation is expected to yield approximately \$88.8 million, which will allow the repayment of all current and proposed debt obligations.

## **SALES TAX**

Sales tax collections are a major revenue component. Economic conditions in FY2016 continued to improve with the 12-month rolling average of sales tax collections achieving new record highs throughout much of the year. This trend is positioned to continue through FY2017 given that the Dallas-Fort Worth area was named one of the top retail construction markets in 2015 calendar year and in 2016 it was noted that Dallas-Fort Worth leads the nation in industrial building construction, according to the business section of the Dallas Morning News. There are continued increases in permitting volumes as well as new and existing homes values. Based on the FY2016 year-end budget projections, sales tax revenue is expected to match the FY2016 adopted budget at \$103,065,427.

Among large Texas cities, Fort Worth is continuing a positive trend with year-to-date sales tax collections up 3.5% over the same period last year, which puts Fort Worth's sales tax performance ahead of Houston, San Antonio and El Paso.

There were no significant audit adjustments at the time of the third quarter re-estimates for FY2016, and the City continues to follow the 20-year incremental repayment plan agreement with the State Comptroller to refund the \$9.3 million in audit adjustments identified in FY2011. As of June 2016, the City has \$7.01 million remaining to repay with the last payment expected in August 2031.

## **GENERAL FUND EXPENDITURES**

### **Adopted General Fund Expenditure Budget**

FY2016	FY2017	Percent	Dollar
<u>Adopted</u>	<u>Proposed</u>	<u>Change</u>	<u>Change</u>
\$610,902,639	\$639,004,871	4.6%	\$28,102,232

For FY2017 General Fund expenditures are keeping pace with revenues. However costs are increasing due to a variety of factors, including rising supply and contractual service costs, program and service level improvements, and personnel cost increases.

**Salary and Benefits Changes.** In keeping with the City's commitment to invest in its employees, the following salary and benefits changes are included in the FY2017 budget:

- Salary increases for sworn Police Officers as stipulated by the Meet and Confer contract
- Fire Civil Service employees will receive salary increases in accordance with the Collective Bargaining Agreement between the City and the Fort Worth Professional Firefighters Association
- The continued implementation of the compensation and classification study for general employees as well as a budgeted 3% of salaries dedicated to pay for performance.

### **BUDGET HIGHLIGHTS**

The FY2017 Proposed Budget includes numerous actions that move the City forward under the guidance of the FY2017 Budget Principles and Management Plan. Included below are highlights of those changes.

**Property Tax Rate Reduction.** In an effort to increase commercial development and lower the tax burden to City of Fort Worth residents and businesses, part of the FY2017 tax levy revenue increases are being rebated back to citizens and businesses. The City of Fort Worth Property Tax rate is being reduced \$0.02 cents to \$0.8350 per \$100 of assessed value from \$0.8550 per \$100 of assessed value.

**Increased Funding for New Capital Projects and Maintenance.** A portion of the FY2017 tax levy revenue increases are being directed toward new capital investment and the maintenance of existing capital projects in specific categories. Categories and funding have been broken out as follow:

- Transportation/Public Works – An additional \$0.005 cents or \$2,560,468 in FY2017
- Neighborhood Services – An additional \$0.005 cents or \$2,560,468 in FY2017
- Information Technology – An additional \$0.005 cents or \$2,560,468 in FY2017
- Property Management – An additional \$0.0025 cents or \$1,280,234 in FY2017

**Increased Funding for Pay As You Go (PAYGO) Capital.** One way that City Departments are able to maintain or purchase capital items on a one-time basis is through the use of PAYGO capital funding. In an effort to increase PAYGO funding levels for Departments, a portion of FY2017 levy revenue increases have been set aside for this purpose. PAYGO capital funding will increase \$0.0156 cents or \$9,960,479 in FY2017.